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El Salvador

Trade Policy Monitoring

Obstacles to Integration before CAFTA

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Report Highlights:
In the past couple of months Central America has advanced more in their integration efforts than they had for the past decade. All the countries in the region have signed an Action Plan to harmonize customs, duties, and trade laws in preparations for a Central American Free Trade Agreement (CAFTA). U.S. and Central American exporters should benefit by having an integrated 30 million consumer market for their products.

Includes PSD changes: No
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Executive Summary

Globalization and the need to negotiate free trade agreements as a block are the major factors pressuring El Salvador and it's Central American neighbors in their latest attempt to integrate the region. Following is a brief history of previous steps taken by the region to become united:

- 1824-1838: The Federal Republic of Central America was created.
- 1907-1918: The Central American Judicial Court was created.
- 1951: First letter to constitute the Organization of Central American States (ODECA) was signed.
- 1960: Central American Free Trade Market was started. Honduras and Costa Rica joined this attempt in 1962 and 1963 respectively. However, a conflict between El Salvador and Honduras in 1969 ended the region's integration efforts.
- 1991: ODECA is substituted by the Central American Integration System (SICA) as new legal and political frame for integration.
- 1993: SICA begins operations.

Currently, SICA and the Central American Economic Integration Secretariat (SIECA) are the main institutions involved in the latest integration effort. Recent free trade talks with the U.S. and the European Union have accelerated the regional integration process. The region has established a calendar of activities which contemplate 2004 as the deadline to complete the regional integration. Since the possibility of a free trade agreement with the U.S. came into the scene, the Central American presidents have met over a dozen times to try to agree on the creation of a Dispute Settlement Mechanism, an agreement on Service Trade and incorporating Costa Rica into the Customs Union process which pretends to eliminate the intra regional barriers by January of 2003. All this activities are geared to consolidate the Central American Common Market. However, there are many commercial as well as territorial quarrels which make the process more difficult.

Salvadoran President Flores is the most active in the region promoting integration. He is a firm believer that Central America can't hope to achieve sustainable development unless they act united as a region and take advantage of the opportunities that free trade has to offer, especially much needed employment and foreign investment.

Obstacles to Trade

Even though Central America has progressed in eliminating obstacles to trade in the region, the latest SIECA report shows that there are still 33 measures that are contrary to intra regional trade. The majority of these measures are applied by Honduras, Guatemala and Nicaragua. Each one of these countries has 9 complaints pending resolution by SIECA.

Following is a country by country description of the different obstacles to trade that still persist in the region:

Honduras

- SIECA has received 9 complaints against dispositions applied by Honduras. The majority are sanitary measures to meat and dairy products and also some monetary charges that are not expected under the intra regional accords.

- Poultry products from Costa Rica and dairy products from Guatemala haven't been able to gain entry to the Honduran market. The problem occurs with Honduran customs officials reluctance to provide access because of what they call lack of plant certifications or because their permits have expired. Costa Rica has taken this issue for consultation to the Agriculture and Sanitary Measure Committees of the WTO. The Honduran regulation only allows poultry products from countries that have equivalent poultry sanitary status, this includes being free of the following four diseases: Avian Influenza, Newcastle, Laringotraqueitis and Salmonella.

- The Agricultural Protection Service requires at the El Amatillo border original import permits issued by Guatemalan authorities and an international phytosanitary permit for Costa Rican trucks that transport goods. If these two requirements are not met, there is a 450 Lempira surcharge per transportation unit.

- With El Salvador, restrictions still persist for imports of processed poultry products under the argument that there is a risk to Honduran commercial flock due to the existence of Avian Influenza in El Salvador.

- Honduras has also been denounced before SIECA for applying charges to Costa Rican transportation units for migratory services and for requiring an export declaration form.

Nicaragua

- Nicaragua also has 9 complaints before SIECA, however the majority are associated with tariff charges or fines, as well as excessive inspections that damage products. Costa Rica and Honduras have denounced these inspections which are causing as much as 50 percent loss in product shipments.

- One of the measures that has been on file for a long time at SIECA is the 35 percent tariff charge to products originating in Honduras. Such measure is considered political and is pending resolution by both governments.

- Nicaragua has also been denounced for the application of fines and illegal charges by the National Police.

- Other charges that have been denounced are for compensatory fees imposed to Costa Rican milk, these are supposedly being resolved since 2000.

Guatemala

- Guatemalans are also facing 9 complaints for applying obstacles to regional trade. These complaints are for sanitary restrictions and illegal fees for trade documents.

- Costa Rica and El Salvador have complained about illegal fees for signing of export documents and authorizations for the transportation bill which amount to 375 Quetzales.

- El Salvador has also complained about the use of reference prices which are applied to imports of Salvadoran products. Guatemalan officials argue that this procedure is done according to GATT rules. Salvadoran wheat flour is also facing non-tariff barriers in the Guatemalan market. Salvadoran wheat mills are required to store their product in an authorized warehouse to undergo Ministry of Health inspections, this procedure causes delays of over 30 days and increases costs for Salvadoran wheat flour.

El Salvador

- El Salvador is facing 5 complaints. Most are for customs procedures and only two for sanitary measures for certain agricultural products.

- Guatemala has denounced that Salvadoran customs authorities don't allow entry for swine live animals, products and by products under the argument of risk of hog cholera. Also there is a restriction to coconut products due to risk of lethal yellowing disease.

- El Salvador also denies raw poultry imports from the whole region argueing zero tolerance for salmonella, avian influenza, newcastle and laringotraqueitis.

Costa Rica

- Costa Rica has the least complaints against them in the regional integration process. In the last SIECA report, this country only faces two complaints.

- One of the complaints has been presented by El Salvador and makes reference to tariff barriers for textile products. According to Costa Rica, this measure is defined under the Foreign Agent Protection Law. Costa Rica considers that such norm does not constitute an obstacle to trade and that El Salvador has not provided evidence to prove the contrary.

- El Salvador has denounced Costa Rica and Nicaragua for problems in the access for poultry products. According to El Salvador, Salvadoran poultry operations comply with all the sanitary requirements.

SIECA believes that of the 60 obstacles to intra regional trade that still remain unresolved, only 22 are considered real barriers to trade. In addition, since the signing of a Regional Integration Action Plan by all the Presidents in the region, 38 of the 114 products that had tariff differences of 5 percent or less have been harmonized. The Salvadoran private sector is very optimistic of the integration process and only sees complications in the harmonization of duties and tax laws. Overall, this regional integration process will indirectly benefit U.S. exporters who will now have a unified 30 million consumer market to offer their products.